

PROCEDURE

SUPPLIER DEVELOPMENT AND CAPABILITY ASSESSMENT

CAM 3.3.5

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A. PURPOSE:

Provides guidelines for researching, recruiting, developing and maintaining a viable base of suppliers. It outlines the process of assessing a supplier's technical capability in order to assure successful contract performance.

The buying professional should utilize their knowledge of the supplier and industry group when constructing a solicitation, at the time of award, and during contract management activities. The user's expectations should always be aligned with capabilities known to exist in the subject industry. The Procurement Division's Technical Staff plays a key role in market research, supplier development activities and the technical capability assessment. These activities are critical to a successful procurement.

B. DEFINITIONS: See Glossary Section for definitions. Any definitions included here are for purposes of this procedure only.

1. **Supplier Development (Source Development)** – Identifies suppliers who are (or can become) potential bidders independent of whether they are on an existing State bid list. Involves interfacing with individual and/or groups of suppliers to enhance their understanding, qualifications, performance, agreements and any other important considerations of the procurement being conducted. The effort is lead by the buyer/technical support "team" from the purchasing entity. Information can be obtained from many sources such as: technical (subject matter) experts, reference materials, internet research, trade associations/publications, similar procurements made by others, etc.
2. **Capability Assessment** – The determination of a supplier's ability to satisfactorily perform a contract based upon a technical evaluation of their facilities, equipment, operational controls (quality assurance) and technical skills. Capability assessment is a technical/engineering function as opposed to assessing other important areas of responsibility such as management, finance and accounting. See CAM 3.5.4, Assessing Supplier Responsiveness and Responsibility.
3. **Capacity** – The ability to comply with delivery (production) schedules of a specific contract considering existing commitments to other customers/contracts. Capacity is a sub-set of the broader area of a supplier's responsibility. In some cases capacity can relate to issues such as a machine's ability to process a certain size of material or it's rate of output.
4. **Industry Group** – A set of companies doing business in similar areas of trade whether it is for goods, services or information technology. Many industry groups are well established and recognized formally. However, industries can be emerging or evolving in which case it can be more difficult to establish trade boundaries. An industry group is

sometimes made up of various market sectors. For example: the textile industry is a large industry within which the retail “sports ware” market sector exists. It is critical to understand these various categories and their dependencies (how they interact) when planning procurement activities.

5. **Supply Chain** – The entire source of supply (and contracting arrangements) from the raw materials to the manufacturing, distribution and support infrastructure for the product or service being sought. Many times the supply chain crosses industry boundaries. Supply chain management is concerned with all the parties that can impact the process of producing and selling a product or service.
6. **Pre-Award Survey** – For the purpose of this procedure, a pre-award survey is the process of analyzing and documenting a supplier’s capability and capacity prior to or during the evaluation of the offer (bid evaluation) specific to the requirements of a solicitation. Pre-award surveys take on different forms depending on the complexity of the procurement. Often, they involve direct contact with the supply chain but in simple cases may not require that interaction. Pre-award surveys can be conducted via telephone, fax, site visits, existing records, etc., but in all cases should be well documented in the contract file.

C. PROCEDURE:

1. Supplier Development

- a. Supplier development, as an adjunct to assessing supplier responsiveness and responsibility, is aimed at reducing risk in contract performance. The effort assists suppliers by improving their understanding and potential to adequately perform the contract. Supplier development may be used as a tool in establishing new suppliers capable of meeting customer needs. Activities should include but are not restricted to only the official bid list required in formal solicitations. See CAM 3.4.2, Developing the Solicitation. The effort should be widespread and encompass any potential supplier for the industry group. Supplier development applies to all areas of State contracting: information technology, goods and services.
- b. Supplier development is intended to establish and maintain a viable source of supply. It is critical that the potential bidders be identified very early in the procurement process and that the necessary steps be taken to secure a viable pool of bidders. In cases where there is a repetitive procurement cycle, the effort can be viewed as ongoing (continuous improvement) until such time as an optimum state exists.
- c. The effort begins at the time the purchasing requisition is made. The entity making the request should advise the buyer of known sources of supply as well as be prepared to assist the buyer or technical consultants in evaluating the formal State bid list for viable bidders.
- d. At this point, the buyer should decide whether a viable pool of bidders has been established or that additional development efforts are needed. A useful technique is to evaluate the risk associated with moving forward with the

procurement or to invest further activities aimed at lowering the risk. See CAM 3.3.8, Assessing Insurance Coverage on State Contracts.

- e. In situations where the potential bidders are in need of development, a plan (and schedule) should be established on how the buyer and/or technical support team will mitigate the risk of an unsuccessful procurement prior to the bid due date. A quality product specification is important. Equally important is assuring that a competent workforce (the human elements) is prepared to perform the contract. Make sure the user's expectations are reasonable, clearly stated and potential bidders are prepared to meet them.
- f. A brief description of some of the possible activities used in developing suppliers are described below:
 - I. Benchmarking – This method recognizes and documents a notable supplier, practice or process in a particular industry group as the minimum level of capability and quality. It formally establishes a baseline for that industry group. One scenario is that a pool of bidders currently exists who are capable of performing to the established baseline. The second scenario is where it is questionable whether the bidder pool can perform to the baseline expectations. In the latter case, either the expectations are unrealistic and need to be adjusted (lowered) or further supplier development activities are needed to assure a viable supply base is prepared to offer a compliant bid.
 - II. Industry Surveys – More official than market research. See CAM 3.3.3, Acquisition Consulting and Planning. Surveys of various industries can be useful in maintaining up-to-date information on the latest developments in products and technology. Surveys can be conducted in all areas of goods, services and information technology. Various methods of surveying which can be utilized include, but are not limited to: telephone surveys, facsimile and mail surveys, internet research, forums with industry group(s), focus groups, etc. Whichever method(s) is used, a written report will be developed documenting the survey findings in order to support purchasing decisions.
 - III. Focus Groups (roundtable discussions) – The buying entity sponsors and hosts meetings with potential bidders, manufacturers, user agencies, local agencies and any other stakeholder group as a means for brainstorming ideas, problem solving, sharing perspectives of various the stakeholders, reaching agreement and to promote general program improvement. These forums offer two-way information sharing in an informal environment. Focus groups can be directed toward a particular procurement or industry group. Focus groups are extremely informative relative to the market place and a quick way to gather information in a short time. They can be very effective in improving agency/supplier relations. A focus group can identify the need for further training/education of key resources.
 - IV. Supplier Information Files – These are various repositories of information containing supplier profiles, capability studies, performance histories, legal actions, etc. Files are normally organized by supplier name but may also be filed specific to certain industry groups. Examples of documents include but

are not limited to; useful bidder registration information, Dun & Bradstreet reports, supplier report cards, receiving inspection reports, information regarding any protests filed by suppliers, etc. Files are not restricted to negative information, but should include all information helpful in determining the responsibility of a particular supplier. See CAM 3.5.4, Assessing Supplier Responsiveness and Responsibility). Supplier information files are useful in source selection, contract management and continuous performance improvement. They may be hard copies or electronic.

2. CAPABILITY ASSESSMENT (Technical):

- a. The capability assessment normally occurs during the bid evaluation and refers to the technical evaluation (review) of the bidder's and the associated supply chain's capability to perform the contract. The areas falling under technical capability include such things as: production equipment, facilities, scheduling, plant capacity, quality processes, operational controls, engineering/technical expertise, environmental compliance, legally required technical licenses, etc. Bidders must fully understand the requirements of the contract. The assessment is sometimes referred to as a "pre-award survey" and may or may not include a site visit.
- b. Other important areas such as management, administration, financial support, prior performance, accounting systems, geographic location, sub-contracting practices, etc., contribute to the overall determination of responsibility. See CAM 3.5.4, Assessing Supplier Responsiveness and Responsibility; and CAM 3.3.8, Assessing Insurance Coverage on State Contracts.
- c. The degree of analysis varies with the value and complexity (risk) of the contract. The assessment enables the buyer to recognize the likelihood of contract non-performance and identifies ways to mitigate that risk. The buyer should consider issues pertaining to past performance problems, emerging technologies, new business enterprises, custom vs. industry standard product attributes, etc. when determining the level of effort required of the capability assessment. A formal schedule should be established during the initial phase of the procurement so that the capability assessment(s) occurs prior to major decisions in the procurement process, (see CAM 3.3.3, Acquisition Consulting and Planning).
- d. The capability assessment can include site visit(s), written/fax correspondence, telephone interviews, historical records or any other means of gathering relevant and accurate information used in support of the award decision.
- e. An evaluation team may need to be formed if the assessment is too complex for one individual and/or may not be completed in a timely manner. This decision is left to the buyer who should request the support needed to make an accurate, timely and fair assessment. There may be multiple teams supporting the buyer for complex procurements.
- f. All assessments require coordination with the supplier. The supplier should anticipate the review if it was referenced in the solicitation as part of the criteria for award. However, if information is discovered during the bid evaluation phase

which makes further assessment desirable, the buyer may request additional assessments in order to determine whether the supplier is responsible and eligible for award. See California Code of Regulation (C.C.R.), Section 1890(d). The evaluation team may need to reinforce the State's expectations of the assessment (relating to contract performance) prior to commencement of the review. Both parties need to agree to the following:

- I. The objective of the review;
 - II. When the review will be conducted and the anticipated duration;
 - III. Who will conduct the review;
 - IV. What will be expected of the supplier before, during and after the review;
 - V. What standards the supplier will be measured against;
 - VI. How the review results will be used; and
 - VII. Who should review the results.
- g. The evaluation team should use a standard format (template) for the review. However, sometimes customizations are needed (some sections won't apply or new sections may be added to fit a particular industry). Users may seek assistance in developing survey questions by contacting Procurement Division, Technical Staff. Some information requests can be faxed to the supplier and returned to the evaluation team prior to and in support of a site visit. For instance, if appropriate, facility lists should be obtained from the supplier along with copies of quality control manual(s).
- h. The results of the supplier survey must be accurately documented, distributed to the appropriate parties and retained for future reference in the contract file.

D. RESPONSIBILITIES

1. The entity conducting the procurement shall lead (coordinate) the effort in establishing responsibility criteria and developing the potential bidders for the industry(s) being utilized. Developing and assessing the supplier (and supplier base in general) is in direct support of the buyer.
2. The buyer shall request a pre-award capability assessment from their technical support staff. A complete evaluation should be made with emphasis on areas that have historically been a problem or have been determined to be associated with high risk. The buyer should also assure the proper evaluation team is formed. At a minimum, the evaluation team should include a technical subject matter expert (technician/engineer), a member of the buying staff (administrative), and a representative from the program for which the purchase is being made (functional user). Note: this evaluation team, as a whole, may need to address many other non-technical areas. See CAM 3.5.4, Assessing Supplier Responsiveness and Responsibility.

3. Agencies acting under a delegated purchasing authority should use resources available in Procurement Division or closely align with the roles described in this section.

E. APPENDICES:

1. [Appendix 1, Guidelines for conducting an on-site survey of a manufacturing facility](#)

F. AUTHORITY AND REFERENCES:

1. Statutory: None
2. Administrative: [California Code of Regulations \(CCR\), Section 1890](#)
3. Procedural: CAM 3.3.3, Acquisition Consulting and Planning
[CAM 3.3.8, Assessing Insurance Coverage on State Contracts](#)
CAM 3.4.2, Developing the Solicitation
[CAM 3.5.4, Assessing Supplier Responsiveness and Responsibility](#)

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